

## HIGHER EDUCATION

California's system of higher education performs an important role in equipping Californians with the knowledge and skills necessary to meet the challenges of the future. Major entities comprising higher education in California include the University of California, the California State University, the California Community Colleges, and the California Student Aid Commission. The California Postsecondary Education Commission is also included in the budget totals described below.

The Governor's Budget proposes revised total funding of \$22.7 billion in 2010-11, including \$13.6 billion General Fund and Proposition 98 sources for all major segments of Higher Education, reflecting an increase of \$269.4 million (\$136.1 million increase in General Fund and Proposition 98 sources) above the 2010-11 Budget Act. These amounts represent a 1.2-percent increase, including a 1-percent increase in General Fund and Proposition 98-related sources above the 2010-11 Budget Act.

For 2011-12, the Budget proposes total funding of \$22 billion, including \$11.7 billion General Fund and Proposition 98 sources for all major segments of Higher Education, reflecting a decrease of \$433.5 million (\$1.7 billion decrease in General Fund and Proposition 98 sources) below the 2010-11 Budget Act. These amounts represent a 1.9-percent reduction, including a 12.8-percent reduction in General Fund and Proposition 98-related sources below the 2010-11 Budget Act.

See Figure HED-01 for a summary comparison of individual segment funding totals reflecting the Governor's Budget proposal and prior year appropriations.

Figure HED-01  
**Higher Education Expenditures**  
**General Fund, Lottery Funds, State School Fund,**  
**Local Revenues and Student Fees**  
(Dollars in Millions)

	2007-08	2008-09	2009-10	2010-11 Budget Act	2010-11 Revised	2011-12 Proposed	Change from 2010-11 Budget Act	
							Dollar	Percent
University of California <sup>1/</sup>								
Total Funds	\$5,453.3	\$5,453.4	\$5,298.1	\$6,260.2	\$6,305.3	\$5,988.6	-\$271.6	-4.3%
General Fund	3,257.4	2,418.3	2,591.2	2,912.6	\$2,911.6	\$2,524.1	-\$388.5	-13.3%
ARRA Reimbursement <sup>4/</sup>		716.5	-	106.6	106.6	-	-\$106.6	
California State University <sup>1/</sup>								
Total Funds	4,487.1	4,616.9	4,279.9	4,813.6	\$4,873.7	\$4,597.3	-\$216.3	-4.5%
General Fund	2,970.6	2,155.3	2,345.7	2,617.4	\$2,682.7	\$2,291.3	-\$326.1	-12.5%
ARRA Reimbursement <sup>4/</sup>		716.5	-	106.6	106.6	-	-\$106.6	
Community Colleges								
Total Funds	9,081.6	9,558.8	9,464.7	9,516.0	\$9,575.3	\$9,272.0	-\$244.0	-2.6%
General Fund & P98 <sup>2/</sup>	6,425.6	6,314.4	6,124.7	6,261.8	\$6,231.0	\$5,829.3	-\$432.5	-6.9%
ARRA Reimbursement <sup>4/</sup>		35.0	-	4.0	4.0	-	-\$4.0	
Student Aid Commission (GF)								
Total Funds	896.1	924.7	1,111.9	1,226.7	\$1,373.7	\$1,597.8	\$371.1	30.2%
General Fund	866.7	888.3	1,043.5	1,078.6	\$1,224.3	\$577.6	-\$501.0	-46.5%
Other Higher Education <sup>3/</sup>								
Total Funds	384.3	452.9	586.7	635.2	\$593.1	\$562.6	-\$72.6	-11.4%
General Fund	354.7	419.3	547.4	586.4	\$543.2	\$513.6	-\$72.8	-12.4%
<b>Total Funds</b>	<b>\$20,302.3</b>	<b>\$21,006.7</b>	<b>\$20,741.3</b>	<b>\$22,451.7</b>	<b>\$22,721.1</b>	<b>\$22,018.2</b>	<b>-\$433.5</b>	<b>-1.9%</b>
<b>General Fund</b>	<b>\$13,875.0</b>	<b>\$12,195.6</b>	<b>\$12,652.6</b>	<b>\$13,456.8</b>	<b>\$13,592.9</b>	<b>\$11,735.8</b>	<b>-\$1,721.0</b>	<b>-12.8%</b>

<sup>1/</sup> For purposes of this table, expenditures for the UC and CSU have been adjusted to include the offsetting general purpose income, but exclude self-supporting functions such as auxiliary enterprises and extramural programs among others. This provides consistency in comparing magnitudes and growth among the various segments of education.

<sup>2/</sup> For purposes of comparing with UC and CSU General Fund, CCC includes property tax revenue as a component of the state's obligation under Proposition 98.

<sup>3/</sup> The Other Higher Education amount includes Hastings College of the Law (HCL), the California Postsecondary Education Commission (CPEC), and General Obligation Bond Interest and Redemptions for UC, CSU and HCL.

<sup>4/</sup> All second round allocations of American Recovery and Reinvestment Act (ARRA) funding from the State Fiscal Stabilization Fund are shown in 2008-09 to more accurately reflect segmental expenditures between the two fiscal years and intent of federal law to backfill 2008-09 reductions.

## UNIVERSITY OF CALIFORNIA

Drawing from the top 12.5 percent of the state's high school graduates, the University of California (UC) educates approximately 234,000 undergraduate and graduate students at its ten campuses and is the primary segment authorized to independently award doctoral degrees and professional degrees in law, medicine, dentistry, and veterinary medicine. Through University Extension, with approximately 300,000 enrollments annually, UC provides continuing education for Californians to improve their job skills and enhance the quality of their lives. UC manages one U.S. Department of Energy national laboratory, partners with private industry to manage two others, and operates five medical centers that support the clinical teaching programs of the UC's medical and health sciences schools that handle more than 3.7 million patient visits each year.

The significant General Fund workload adjustments are as follows:

- Restore One-Time Reduction for Federal Fund Offsets—An increase of \$106 million in 2011-12 to backfill a like amount of one-time Federal American Recovery and Reinvestment Act (ARRA) funding received in 2010-11.
- Retired Annuitant Benefits—An increase of \$7.1 million in 2011-12 to fund additional costs for health and dental benefits to retired annuitants.
- Lease Revenue Debt Service—A decrease of \$1 million in 2010-11 and an increase of \$726,000 in 2011-12 for required lease payments used to pay lease-revenue bonds issued for capital projects.
- Deferred Maintenance Loan Repayments—A decrease of \$2.4 million in 2011-12 to remove funding for deferred maintenance loan repayments, which are now fully paid.

The significant Non-General Fund workload adjustments are as follows:

- Student Fee Revenue—An increase \$183.1 million in 2011-12 to reflect fee actions authorized by the Regents in November 2010, including an 8-percent increase for undergraduates and graduates (from \$10,302 to \$11,124) and increases in professional school fees that average 8 percent on a weighted basis (individual professional fees increase from zero to 31 percent).
- Remove One-Time Federal Fund Reimbursements—A decrease of \$107 million in 2011-12 to reflect the one-time nature of federal ARRA funding utilized to offset General Fund support costs in 2010-11.
- Breast Cancer Research—A decrease of \$1.3 million in 2011-12 to reflect a decline in tobacco tax revenue, which funds research on the cause, cure, treatment, early detection, and prevention of breast cancer.
- Lottery Revenue—Increases of \$2.8 million in 2010-11 and 2011-12 as a result of revised estimates of this fund source for the UC.

The significant Non-General Fund policy issue adjustment is:

- Umbilical Cord Blood Collection Program—An increase of \$4.6 million in 2011-12 from special funds for grants and contracts with licensed and accredited umbilical cord blood banks for the purpose of collecting and storing genetically diverse umbilical cord blood for public transplantation purposes. Chapter 529, Statutes of

2010, transferred administration of the program to the UC from the Department of Public Health and increased birth certificate fees to fund its provisions.

The significant General Fund solution is:

- **Targeted Reductions**—A decrease of \$500 million in 2011-12 to reflect necessary funding reductions to help resolve the budget deficit. These reductions are intended to minimize fee and enrollment impacts on students by targeting actions that lower the costs of instruction and administration. The Administration will work with the Office of the President and the Regents, as well as stakeholders (including representatives of students and employees), to determine the specific mix of measures that can best accomplish these objectives.

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### **CALIFORNIA STATE UNIVERSITY**

Drawing students from the top one-third of the state's high school graduates, as well as transfer students who have successfully completed specified college work, the California State University (CSU) provides undergraduate and graduate instruction through the master's degree and independently awards doctoral degrees in education or jointly with UC or private institutions in other fields of study. With its 23 campuses and approximately 440,000 students, the CSU is the largest, most diverse, and one of the most affordable university systems in the country. The CSU plays a critical role in preparing the workforce of California; it grants more than half the state's bachelor's degrees and one-third of the state's new master's degrees. The CSU prepares more graduates in business, engineering, agriculture, communications, health, and public administration than any other California institution of higher education. It also produces nearly 60 percent of California's teachers.

The significant General Fund workload adjustments are as follows:

- **Restore One-Time Reduction for Federal Fund Offsets**—Similar to UC, an increase of \$106 million in 2011-12 to backfill a like amount of one-time ARRA funding received in 2010-11.
- **CalPERS Retirement Costs**—Increases of \$75.2 million in 2010-11 and 2011-12 to reflect higher employer share payments pursuant to Section 3.60 of the 2010 Budget Act.

- Retired Annuitant Benefits—An increase of \$1 million in 2011-12 to fund additional costs for dental benefits to retired annuitants.
- Lease Revenue Debt Service—Decreases of \$10 million in 2010-11 and \$9.8 million in 2011-12 to reflect revised costs of required lease payments used to pay lease-revenue bonds issued for capital projects.
- Deferred Maintenance Loan Repayments—A decrease of \$2.3 million in 2011-12 to remove funding for deferred maintenance loan repayments, which are now fully paid.

The significant Non-General Fund workload adjustments are as follows:

- Student Fee Revenue—An increase of \$221.6 million in student fee revenue in 2011-12 to reflect actions of the CSU Trustees in November of 2010, including annualization of the 5-percent mid-year fee increase for all students and a 10-percent fee increase for the budget year. Undergraduate fees thereby increase from \$4,230 to \$4,335 in the current year and up to \$4,884 in the budget year.
- Student Fee Revenue—A net decrease of \$6.5 million in student fee revenue in 2010-11 based on revised estimates and enrollment patterns that offset the increased revenue generated by the 5-percent mid-year fee increase noted above.
- Remove One-Time Federal Fund Reimbursements—A decrease of \$107 million in 2011-12 to reflect the one-time nature of federal ARRA funding utilized to offset General Fund support costs in 2010-11.
- Lottery Revenue—Increases of \$1.3 million in 2010-11 and 2011-12 as a result of revised estimates of this source for the CSU.

The significant General Fund solution is:

- Targeted Reductions—A decrease of \$500 million in 2011-12 to reflect necessary funding reductions to help resolve the budget deficit. These reductions are intended to minimize fee and enrollment impacts on students by targeting actions that lower the costs of instruction and administration. The Administration will work with the Office of the Chancellor and the Trustees, as well as stakeholders (including representatives of students and employees), to determine the specific mix of measures that can best accomplish these objectives.

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## CALIFORNIA COMMUNITY COLLEGES

The California Community Colleges (CCC) are publicly supported local education agencies that provide educational, vocational and transfer programs to approximately 2.8 million students. Constituting the largest system of higher education in the world, the California Community College system is comprised of 72 districts, 112 campuses, and 68 educational centers. The CCC advance California's economic growth and global competitiveness through education, training, and services that contribute to continuous workforce improvement. The CCC also provides remedial instruction for hundreds of thousands of adults across the state through basic skills courses and adult non-credit instruction.

In recent years, the K-12 system has borne a larger share of Proposition 98 reductions than the CCC has and cannot be expected to sustain a disproportionate share of reductions going forward. Although the Governor's Budget makes necessary reductions (reflected in the solution adjustments below) to the CCC in order to achieve a balanced budget, the statutory expectation of an 11-percent split of the Proposition 98 Guarantee has been met.

The significant Proposition 98 General Fund workload adjustments are as follows:

- **Deferral Payments**—An increase of \$129 million in 2011-12 is reflected as a result of actions taken in the 2010 Budget Act to defer a like amount of apportionment payments to July of 2011. These funds were appropriated already in Chapter 724, Statutes of 2010.
- **Property Tax Adjustment**—An increase of \$33.4 million in 2011-12 to reflect reduced property tax estimates. Current law intends that property taxes should offset Proposition 98 General Fund costs for community college apportionments. Because property taxes are estimated to decline, General Fund costs are increased by a like amount. Although revised estimates of property taxes in 2010-11 are estimated to decline by \$14.7 million, there is no requirement to backfill shortfalls in law. Because of the state's large budget shortfall, no backfill is proposed.
- **Student Fee Adjustment**—An increase of \$18.7 million in 2011-12 to reflect revised estimates of student fee revenue, primarily resulting from higher-than-anticipated Board of Governors' fee waivers. Similar to property taxes, student fees are intended to offset the costs of apportionments.

- Financial Aid Administration Adjustments—An increase of \$1.7 million in 2011-12 as a result of a higher estimate for fee waivers. Current law requires specified amounts be budgeted in a categorical program, based on the value of fee waivers, to help the colleges with the administrative costs of processing fee waivers.
- Lease Revenue Debt Service—A decrease of \$5.1 million in 2011-12 to reflect revised costs of required rental payments used to pay lease-revenue bonds issued for capital projects.
- Oil and Mineral Revenue Adjustment—A decrease of \$1.1 million in 2011-12 as a result of a higher estimate of revenue from this source which offsets General Fund for apportionments similar to property taxes.

The significant Proposition 98 General Fund policy adjustment is:

- Growth—An increase of \$110 million in 2011-12 for 1.9-percent apportionment growth to help preserve and expand course sections to meet the demand of students seeking transfer, career technical certificates, and retraining. This funding is sufficient to fund approximately 22,700 Full-Time Equivalent Students (FTES).

The significant Non-General Fund workload adjustments are as follows:

- Career Technical Education (CTE)—An increase of \$20 million in 2010-11 to reflect Proposition 98 Reversion Account funding appropriated to the Department of Education that was allocated to the Chancellor's Office to augment the CTE Initiative pursuant to the Budget Act of 2010.
- Lottery Revenue—Increases of \$12.4 million in 2010-11 and 2011-12 as a result of revised estimates of this source for local assistance.
- Oil and Mineral Revenue—An increase of \$1.1 million in 2010-11 and 2011-12 for local assistance apportionments as a result of revised estimates of this revenue source.
- Bond Accountability—An increase of \$136,000 in 2011-12 for state operations to fund ongoing accountability for the use of general obligation bonds by the colleges.
- Property Tax Revenue—Decreases of \$14.7 million in 2010-11 and \$33.4 million in 2011-12 as a result of revised estimates of local property taxes that support local assistance apportionments.

- Student Fee Revenue—Decreases of \$15.2 million in 2010-11 and \$18.7 million in 2011-12 as a result of revised base estimates primarily resulting from higher-than-anticipated fee waivers.
- One-Time Federal Fund Reimbursements—A decrease of \$5 million in 2011-12 to reflect the one-time nature of federal ARRA funding utilized for a variety of categorical programs in 2010-11.

The significant Non-General Fund policy adjustment is:

- Federal Personal Care Certification Project—An increase of \$750,000 in 2010-11 and \$748,000 in 2011-12 as a result of the receipt of a new federal grant for training students to become personal care and home care aids. Of these amounts, \$53,000 and \$75,000 is available for state operations in 2010-11 and 2011-12, respectively, with the remainder for local assistance.

The significant Proposition 98 General Fund solutions are as follows:

- Fee Increase—A decrease of \$110 million to apportionments in 2011-12 as a result of increased local revenue from a \$10 proposed fee increase from \$26 per credit unit to \$36 per credit unit. Although this increase is significant, a full-time student would pay \$1,080 per year for a full load—about one-third of the average fees charged by comparable community colleges in the nation—and would still rank California as the lowest in the nation based on 2009 data. Low-income students will continue to receive Board of Governors' fee waivers, which provide fee exemptions for approximately half of the students attending CCC. Given the extraordinary depth of the budget shortfall, this change is necessary to minimize reductions to other community college programs and to fund growth in enrollments for 2011-12.
- Fee Waiver Administration—Additionally, the Budget proposes to decouple the formula in current law for categorical fee waiver administration funding that is linked to the dollar value of fee waivers because it would require an increase in state expenditures that does not relate to a change in administrative workload. This change would eliminate \$2.9 million in additional costs for the fee waiver administration program associated with the fee increase noted above.
- Apportionment Reductions and Reforms—A decrease of \$400 million in 2011-12 to apportionments is proposed along with reforms to census accounting practices to provide better incentives for maximizing academic course sections available for students seeking vocational certificates and transfer to four-year colleges within the



diminished level of funding. Currently, community college attendance accounting allows colleges to receive credit apportionment funding for student attendance after only 20 percent of a course is completed. However, 16 percent of students on average do not finish credit courses they have enrolled in. This policy provides an incentive for colleges to take advantage of the system to maximize funding which also distorts the overall FTES workload completed by the colleges. In effect, colleges are being funded for a higher level of students than actually attend courses.

- The Administration proposes to work with the Chancellor and the Board of Governors, as well as stakeholders (including representatives of students and employees), to develop specific census date reforms and other changes to apportionment funding that result in equitably spreading reductions while rewarding colleges for ensuring necessary prerequisites to enrollment are met, assisting students in completing courses they enroll in, and prioritizing course offerings needed for transfer and vocational skills. This can be accomplished in a variety of ways, including adjusting funding rates for the priority courses, developing base apportionment adjustment factors related to course completion rates, and other strategies. Under this policy, colleges will have a greater incentive to offer the courses necessary for transfer, vocational certificates, and other priority academic programs necessary for students to acquire the skills needed for the 21<sup>st</sup> century economy.
- **Defer Additional Apportionments**—A decrease of \$129 million in 2011-12 as a result of deferring another \$129 million of community college apportionment payments to the 2012-13 fiscal year. This brings total year-to-year deferrals to \$961 million. While this may result in additional short-term cash borrowing at the local level, it provides a one-time savings in Proposition 98 funding to help resolve the 2011-12 state budget deficit.

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## **CALIFORNIA STUDENT AID COMMISSION**

The California Student Aid Commission (CSAC) administers state financial aid to students attending all segments of public and private postsecondary education through a variety of programs including the Cal Grant High School and Community College Transfer Entitlement programs, the Competitive Cal Grant program, the Assumption Program of Loans for Education (APLE), and others. Over 82,000 students received new Cal Grant awards in 2009-10 while 136,000 students received renewal awards.

The significant General Fund workload adjustments are as follows:

- **Current Year Revised Cal Grant Costs**—An increase of \$147.2 million is recognized in 2010-11 primarily to reflect revised estimates by the CSAC for Cal Grants. These adjustments include a significantly higher number of new Cal Grant entitlement awards than originally anticipated (\$141.4 million) and implementation of a 5-percent mid-year fee increase by the CSU Trustees that increases the award amount for students attending that segment (\$5.8 million).
- **Budget Year Estimated Cal Grant Costs**—An increase of \$369.5 million in 2011-12 to reflect increased estimates of Cal Grant costs resulting from higher participation levels in the entitlement programs recognized in the current year that are projected to continue (\$279 million), annualization of the 5-percent mid-year CSU fee increase noted above (\$17.6 million), and higher award amounts conforming to the fee increases approved for 2011-12 by the CSU Trustees (\$25 million) and UC Regents (\$48 million).
- **Backfill Use of One-Time Student Loan Operating Fund Revenues (SLOF)**—An increase of \$100 million in 2011-12 to backfill one-time surplus SLOF revenues that were used for Cal Grant costs.
- **Loan Assumption Programs Costs**—Net increases of \$1 million in 2010-11 and \$2.3 million in 2011-12 for anticipated costs in the APLE and other loan assumption programs.
- **Replacement of Shared Services**—An increase of \$842,000 in 2011-12 for state operations for the ongoing cost of staff and operating expense costs approved in the Budget Act of 2010 for replacing the shared services formerly provided by EdFund, the auxiliary organization that formerly carried out the federal student loan guaranty activities for the CSAC.

The significant General Fund policy issue adjustment is:

- **Replacement of Shared Services**—Decreases of \$1.2 million in 2010-11 and \$842,000 in 2011-12 are reflected. Based on a new agreement with the successor guarantor agency for California, Educational Credit Management Corporation (ECMC), the shared services formerly provided by EdFund will continue to be provided to the CSAC by the entity assigned by the U.S. Department of Education to take over the federal student loan guaranty functions. Therefore, the one-time and ongoing costs provided for this purpose in the Budget Act of 2010 are unnecessary.

The significant Non-General Fund workload adjustments are as follows:

- John R. Justice Grant Program—Increases of \$52,000 for state operations and \$889,000 for local assistance from reimbursements in both 2010-11 and 2011-12 resulting from an interagency agreement with CalEMA that received a federal grant to administer and make awards for a new program designed to attract and retain qualified individuals to serve as public defenders and prosecutors.
- Federal Leveraging Educational Assistance Partnerships—A federal fund increase of \$389,000 in 2010-11 and a decrease of \$5.6 million in 2011-12 as a result of federal reallocations and policy decisions, respectively, for these sources that offset the state's Cal Grant costs.

The significant General Fund solutions are as follows:

- Offset Cal Grants with Student Loan Operating Fund—A decrease of \$30 million in 2011-12 based on the expected receipt of a like amount from ECMC for Cal Grant costs. The U.S. Department of Education has indicated they expect to approve payments back to the state for this purpose from the revenue derived from the California federal student loan guaranty portfolio.
- Offset Cal Grants with Federal Temporary Assistance to Needy Families (TANF) Reimbursements—A decrease of \$946.8 million in 2011-12 to reflect TANF funds available through an interagency agreement with the Department of Social Services pursuant to CalWORKs reduction proposals discussed in the Health and Human Services section.

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## HASTINGS COLLEGE OF LAW

Affiliated with the University of California, the Hastings College of the Law is the oldest and one of the largest public law schools in the West, providing instruction to approximately 1,300 students annually.

The significant General Fund workload adjustment is:

- Retired Annuitant Benefits—An increase of \$71,000 in 2011-12 to fund additional costs for health and dental benefits to retired annuitants.

The significant Non-General Fund workload adjustment is:

- Student Fee Revenue—Decreases of \$1.6 million in student fee revenue in 2010-11 and \$638,000 in 2011-12 reflecting decreased enrollments and increased fee waivers. The change in 2011-12 also reflects actions by the Hastings Board of Directors to increase fees by 3 percent in the budget year that will raise annual professional fees from \$36,000 to \$37,080.

The significant General Fund solution is:

- Targeted Reductions—A decrease of \$1.5 million in 2011-12 to reflect necessary funding reductions to help resolve the budget deficit. These reductions are intended to minimize fee and enrollment impacts on students by targeting actions that lower the costs of instruction and administration. The Administration will work with the college President and Dean, the Hastings Board of Directors, and stakeholders to determine the specific mix of measures that can best accomplish these objectives.